OFFICE OF THE
Auditor General
of British Columbia

Notes on Public Sector Reform and Performance Management

- International Themes
- Australia
- New Zealand
- The United Kingdom
- The United States

Top of Page

Notes on Public Sector Reform and Performance Management New Zealand

Table of Contents

New Zealand

1. Background

2. Timeline of Main Initiatives

3. Main Initiatives

   3.1. 1984-1987 Labour Government Reform
   3.2. Build a Legislative Framework for Reforms
      3.2.1. Government Management
      3.2.2. The State Sector Act 1988
      3.2.3. The Public Financial Act 1989
      3.2.4. The Logan Review
      3.2.5. The Fiscal Responsibility Act 1994
   3.3. Continuing and Consolidating the Reforms
      3.3.1. Strategic Result Areas for the Public Sector
      3.3.2. Public Service Principles, Conventions and Practice
      3.3.3. The Spirit of Reform
      3.3.4. Crown Entity Reform
   3.4. A new Stage: Getting Better Results
      3.4.1. Review of the Centre
      3.4.2. Other Initiatives

4. Key Elements

   4.1. Legislative Commitment
   4.2. Leadership
   4.3. Setting Objectives and Measuring Performance
   4.4. Performance-Based Budgeting
   4.5. Performance-Based HR Management
   4.6. Performance Reporting and Reviewing
   4.7. Building Performance Culture

5. Reference

New Zealand

1. Background

The reforms in the New Zealand Public Sector have widely been seen as the most radical one within OECD countries.[1] There have been reforms of government commercial enterprises, reforms focussed on core public sectors, and reforms to improve accountability and employment relations. As with other countries, the main driving force for these changes was the changing economic situation.

Three main features were found in the New Zealand economics before the 1980s. First, the system of protectionism had been in place ever since the Second World War. With the use of central planning to direct the economy, they developed a consensus among major groups—farmer, manufacturers, and workers—about their roles and entitlements.[2] This consensus was sustained throughout almost 20 years of full employment. A consequence of this was the continued willingness "for the government to act when matters were thought to need attention… to intervene whenever market actors were not producing desired outcomes."[3] Second, New Zealand had developed an extensive social safety net, which included an extensive medicare system consisting of many free services, subsidized housing, free education through university level, as well as unemployment benefits and other social transfer payments.[4] The third feature was that New Zealand had close economic and cultural ties to the United Kingdom. However, these began to dwindle after the UK joined the European Community in 1973, and it became obvious that the favoured arrangements for New Zealand agricultural exports to the UK market could not survive. By 1982, only 14.7 percent of exports went to the UK, compared to the 65 percent in 1952.[5]

With these features and social changes, the New Zealand system of protectionism was close to the point of collapse by the early 1980s. Following a mid-1984 election campaign dominated by economic issues, the Muldoon government was resoundingly defeated. The change of government precipitated an economic crisis that had been building for some time. A significant underlying cause of the crisis was a decade of

---

[1] Colin Talbot, Lyn Daunton, and Colin Morgan, *Measuring Performance of Government Departments—International Developments*, [http://www.tintern.org/nao_gov_report.pdf]. Report to UK National Audit Office, London: Public Futures Ltd, 2001.

[2] OAG Canada, *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/nzbody.html], Ottawa: OAG, 1994.

[3] P. McKinlay, ed. *Redistribution of Power? Devolution in New Zealand*, via OAG Canada, *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*.

[4] OAG Canada, *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/nzbody.html]. Ottawa: OAG, 1994.

[5] Christopher Pollitt and Geert Bouckaert, *Public Management Reform: A Comparative Analysis*, Oxford: Oxford University Press, 2000, p. 252.

worsening trade balance. The exchange rate for the New Zealand dollar had been maintained around the 1972 level, despite a decline of approximately 30 percent in the country's terms of trade.[6] New Zealand was forced to suspend foreign currency trading, having nearly exhausted its reserves of foreign exchanges; the country was in real danger of defaulting on its overseas borrowing. The situation was compounded by the very high level of government deficit and accumulated debt.[7]

Prior to 1984, unemployment had usually been low (less than 5 percent) in New Zealand. However, the unemployment rate rose rapidly between 1985 and the early 1990s, rising more than 10 percent in 1992/93. The social effects of this were widespread and harsh.[8] By 1984, the annual deficit was $3 billion and public overseas debt was above the $8 billion mark,[9] leaving New Zealand bordering on bankruptcy. It appeared that the only solution was swift and radical reform of both the economy and the state.

---

[6] OAG Canada, *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/nzbody.html], Ottawa: OAG, 1994.

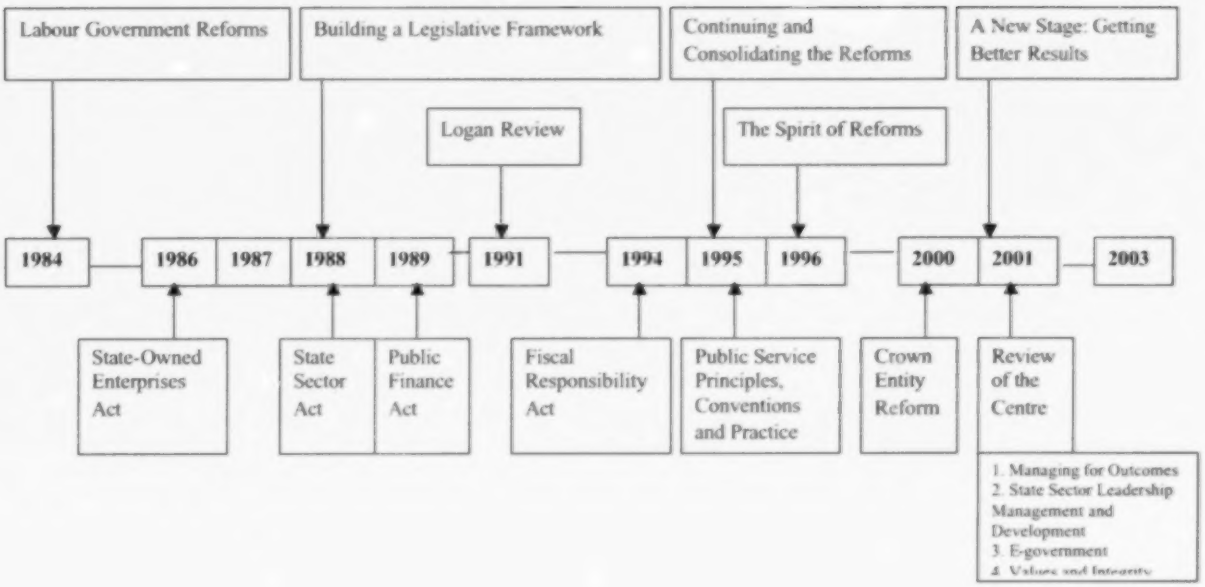
[7] *Ibid.*

[8] Christopher Pollitt and Geert Bouckaert, *Public Management Reform: A Comparative Analysis*, p. 252.

[9] NZ State Service Commission, *New Zealand's State Sector Reform: A Decade of Change*, [http://www.ssc.govt.nz/decade-of-change], New Zealand, 1998.

105-01416/

Timeline of Main Initiatives in New Zealand



2. Main Initiatives

2.1 1984-1987 Labour Government Reforms

The social condition and economic crisis, together with the election of the Labour government (1984-1990), brought about major public service reforms in 1984, which focused on both the economy and the state.

The economy was the first priority of the government. The changes in economic policy brought in by the Labour government were so extensive that they were also known collectively as "*Rogernomics*", after Sir Roger Douglas, the Minister of Finance during 1984 and 1988. The essence of the *Rogernomics* was a return to the free play of market forces in the economy, stripping away the complex and comprehensive web of regulations and subsidies, which had characterized government interventions of the past.[10] The policies included[11]:

- Removal of all price, wage and income controls, and foreign exchange controls;
- Elimination of controls over foreign investment, except for certain sensitive areas;
- Removal of most subsidies to agriculture and industry;
- Establishing a more independent central bank; and
- Tax reform, including the introduction of a goods and services tax and a negative income tax for families.

The change of economic policies was joined with a vigorous reform of social policies. Public sector reforms were focused on two areas: decentralization of decision-making and commercialization.

The New Labour government emphasized greater managerial discretion over inputs, as a means of improving the efficiency, adaptability, and responsiveness of the public service. Senior managers were given greater control over resources, and efforts were made to delegate authority to managers to "the lowest level of competency"[12]. In mid-1986, an exercise known as *Removal of Constraints* streamlined the rulebooks. The State Service Commission removed a lot of its controls over day-to-day management of departments, including matters such as salary fixing, job classification, hiring and firing of staffs, and other aspects of personnel management. Such changes resulted in the deletion of 95 percent of the 2,000 or so detailed instructions contained in the *Public Service Manual*, which was later abolished.[13]

---

[10] OAG Canada, *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/nzbody.html], Ottawa: OAG, 1994.

[11] *Ibid.*

[12] J. Boston, "Transforming New Zealand's Public Sector", *Public Administration*, winter 1987, p. 434.

[13] OAG Canada, *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/nzbody.html], Ottawa: OAG, 1994.

Commercialization included the adoption by government departments of a "set of operating guidelines based on financial criteria". The objectives were to "emulate a commercial management environment in the provision of service with cost-effectiveness and competition as the driving force."[14] Strong efforts were put into cutting public spending and reducing the deficit. In 1986, the Minister of Finance put forward a set of principles requiring all government agencies to realize the full potential for profitable trading.

Another important reform area was the management of state-owned enterprises. The thrust behind this was to reorganize New Zealand's public service by separating commercial from non-commercial activities and constituting state-owned enterprises (SOEs) to carry on the commercial-oriented activities. Roger Douglas stated,

> "The management of State-owned enterprises... will improve accountability to Parliament and to the community. It will also provide a rational basis for implementing those of the Government's social objectives that have previously been tangled up in trading operations."[15]

In 1986, the *State-owned Enterprises Act* was enacted, the purpose of which was to establish state-owned enterprises that would take over major areas of state trading activities and be run as profitable operations. Studies carried out by the New Zealand Institute of Economic Research showed that, across seven large SOEs revenue rose by 15 percent between 1988 and 1992, and after-tax profits quadrupled from NZ$ 1.02 billion to NZ$ 1.02 billion.[16] Beginning in the second term of the Labour government (1987-1990), and continuing since then under the National government, a large proportion of state-owned corporate assets have been privatised.

2.2 Building a Legislative Framework for Reforms

Following Labour's re-election in 1987, the theme of greater efficiency in government, together with a willingness to apply economic theories and new policies, led to fundamental revision of the legislation governing the public sector, resulting in a comprehensive legislative framework for reforms.

2.2.1 Government Management

As early as 1984, Treasury officials advised ministers that direct accountability between chief executives and ministers could make a new and effective public service

---

[14] A. Kouzmin and N. Scot ed. *Dynamics in Australian Public Management*, 1990, via OAG Canada, *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*.

[15] Via State Service Commission, *New Zealand's State Sector Reform: A Decade of Change*, [http://www.ssc.govt.nz/decade-of-change], New Zealand, 1998.

[16] OAG Canada, *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/nzbody.html], Ottawa: OAG, 1994.

system.[17] These ideas were set out in 1984 in *Economic Management: Treasury Brief to the Incoming Government 1984*[18]. The concepts were then expanded in another published briefing *Government Management: Treasury Brief to the Incoming Government 1987*[19]. As suggested, managers should be given greater discretion and authority, matched with effective accountability for clearly specified results, and much greater use should be made of formal arrangements to clarify roles and performance requirements. [20] Treasury also advocated new approaches to the structure of government and to budgeting, accounting, and financial management. These were subsequently adopted by the government and led to some profound changes.

2.2.2 The State Sector Act 1988

The *State Sector Act 1988*[21] was designed to introduce into the public service many of the positive features and incentives of the private sector. The key principle was that managers, if they were permitted to make all input decisions—pay, appointments, organizational structures, production systems, etc—would respond by accepting personal accountability for providing higher quality outputs—the services and goods provided for the Government and citizens.[22] The Act extensively amended the 1962 Act and replaced the *State Services Conditions of Employment Act 1977*. The Act made major changes in the management, personnel, and labour relations in the public service.

The main initiatives could be summarized as the following:

- Chief executives, who were "permanent heads" before, were to be appointed head departments for a fixed term, under contract with the State Services Commission (SSC), and were to be accountable in law for the effective and efficient operation of the departments.
- Chief Executives would know specifically what they were expected to deliver through their performance agreements and purchase agreements, and tune and drive their departments to perform accordingly. Performance expectations were specified and actual performance was to be formally assessed at individual levels throughout most departments.

---

[17] Graham Scott C. B., Public Management In New Zealand: Lessons and Challenges, [http://www.nzbr.org.nz/documents/publications/publications-2001/public_management.pdf], New Zealand Business Roundtable, 2001, p. 4.

[18] New Zealand Treasury, *Economic Management: Treasury Brief to the Incoming Government 1984*, [http://www.treasury.govt.nz/briefings/1984/default.asp], NZ Treasury, 1984.

[19] New Zealand Treasury, *Government Management: Treasury Brief to the Incoming Government 1987*, [http://www.treasury.govt.nz/briefings/1987/], NZ Treasury, 1987.

[20] Graham Scott C. B., Public Management In New Zealand: Lessons and Challenges, [http://www.nzbr.org.nz/documents/publications/publications-2001/public_management.pdf], New Zealand Business Roundtable, 2001, p. 4.

[21] NZ Parliament, *State Sector Act 1988*, [http://rangi.knowledge-basket.co.nz/gpacts/public/text/1988/an/020.html], NZ Parliament, 1988.

[22] NZ State Service Commission, *New Zealand's State Sector Reform: A Decade of Change*, [http://www.ssc.govt.nz/decade-of-change], New Zealand, 1998.

- In respect of personnel policy, the chief executive was required to be a "good employer", which included adherence to the merit principle in all appointments and development of an equality program. The requirement to be a good employer also led departments to establish internal procedures for appeal against management's personnel decisions.

- A Senior Executive Service was to be established under the auspices of the State Services Commission to develop a core group of senior public service executives.

- Department reviews, were to be carried on separately from annual reviews of the chief executive's performance. The findings of the reviews of chief executives were reported to the ministers responsible for their departments.

- Although not specified in the Act, the Commissioner, by virtue of the functions of the position, was to be the head of the public service. The principal functions of the Commissioner were to review the machinery of the government; to review the performance of each department; to appoint chief executives of departments and to negotiate their conditions of employment; to provide and maintain in association with the chief executives, a senior executive service; to promote, develop, and monitor equal employment opportunities, policies and programs for the public service and to furnish advice on training and career development of staff; and to exercise other functions with respect to the administration and management of the public service as the Prime Minister would direct from time to time.

The *State Sector Act 1988* struck a new framework of relationships between parties involved in the public management.[23] With its pronounced emphasis on performance, it also rapidly altered the way the public service looked and operated.

2.2.3 The Public Finance Act 1989

Seen as a revolution in financial management,[24] the *Public Finance Act 1989*[25] was the other pillar of the legislative framework of public service reforms, complementing the *State Sector Act 1988* and introducing a radically different system of financial management and accountability.

Until 1989 the New Zealand Government financial management system was operated on a cash basis. Little or no consideration was given to multi-year items such as depreciation or accrued expenses, and each financial year stood on its own, disconnected

---

[23] Graham Scott C. B., Public Management In New Zealand: Lessons and Challenges, [http://www.nzbr.org.nz/documents/publications/publications-2001/public_management.pdf], New Zealand Business Roundtable, 2001, p. 11.

[24] NZ State Service Commission, *New Zealand's State Sector Reform: A Decade of Change*, [http://www.ssc.govt.nz/decade-of-change], New Zealand, 1998.

[25] NZ Parliament, *Public Finance Act 1989*, [http://rangi.knowledge-basket.co.nz/gpacts/public/text/1989/an/044.html], NZ Parliament, 1989.

from the financial activities of previous years or any following years.[26] Under these circumstances, a new system was introduced through the *Public Finance Act* in 1989.

The *Public Finance Act* was based on three important principles:

- *Parliamentary scrutiny*—the government was to receive its authority to spend from Parliament, which must be satisfied with the justification advanced for money to be appropriated, and that money was to be spent responsibly, for the purpose for which it was to be provided;
- *Accountability*—Departments were to report to Ministers, and Ministers to Parliament, to show that they have acted within their authorities; and
- *Improved managerial performance*—Departments and other government agencies needed incentives to encourage good financial management practices, and prudent but enterprising use of resources.

Based on these principles, the Act provided a framework for reform of the whole financial management of government by[27]:

- Developing a definition for performance;
- Removing many administrative controls;
- Making chief executives responsible for departmental financial management,
- Establishing departmental and Crown reporting requirements; and
- Redefining the appropriation process to change the emphasis from the control of inputs to the purchase of outputs.

The new financial management system had several very significant benefits. It complemented and consolidated the changes made by the *State Sector Act*; it substantially increased the volume and quality of relevant information available about departmental operations, particularly about the true costs of producing and supplying individual outputs, and about the overall financial worth of the State sector; and it enhanced accountability, with the roles and responsibilities of Ministers and chief executives clearly defined, particularly in relation to the purchase and supply of outputs. The reforms shifted the focus of financial management away from detailed control of costs of production, and much more squarely onto the value of the goods and services supplied, and hence, achievement of the Government's desired outcomes.[28]

2.2.4 The Logan Review

As noted above, the Labour government carried out a series of public sector reforms to improve performance and accountability. It also enacted a legislative framework for

---

[26] NZ State Service Commission, *New Zealand's State Sector Reform: A Decade of Change*, [http://www.ssc.govt.nz/decade-of-change], New Zealand, 1998.

[27] Graham Scott C. B., Public Management In New Zealand: Lessons and Challenges, [http://www.nzbr.org.nz/documents/publications/publications-2001/public_management.pdf], New Zealand Business Roundtable, 2001, p. 17.

[28] NZ State Service Commission, *New Zealand's State Sector Reform: A Decade of Change*, [http://www.ssc.govt.nz/decade-of-change], New Zealand, 1998.

the new management model in the public sector. As time passed, performance and accountability became the number one priority of the government. The National party also expressed certain concerns about the new management model. After the National party's election victory in 1990, some of these concerns were addressed in its policies.

In 1991, the Cabinet State Sector Committee appointed a steering group as an independent reviewer to comprehensively review the past reforms in the New Zealand public sector. The group was appointed to assess "the effectiveness of the State Sector reforms, brought about by the *State Sector Act 1988* and the *Public Finance Act 1989*, in improving the efficiency and effectiveness of the Public Service."[29] The review was intended to answer the following questions: what were the reforms intended to achieve; what happened so far as a result of the reform program? What benefits were being realized? And what more was needed to be done to realize the objectives of the reforms and minimize their costs?

The steering group presented the *Review of State Sector Reforms*[30] in November 1991, (also known for its chair as the *Logan Review*). The findings of the review can be summarized as follows.[31]

- There were matters that required "explicit attention", essential to the success of the reforms. The legislative framework for the public service reforms was viewed as sound, and it had a significant and beneficial impact on the effectiveness and efficiency with which the core service operated. Performance improved in most key areas as a result of the reforms.
- The review pointed out that the four essential areas, which were seen as "cornerstones" of any management systems were: the translation of collective strategies into an organizational plan; accurate specification of required performance standards and measures into chief executives' agreements; objective measurement and reward for performance; and the creation of conditions for management of sufficient quality to be attracted, developed, retained, and motivated to perform the reform's objectives.
- The review recommended improvements in performance agreements to ensure that chief executives were adequately responsive to ministers; in particular, performance agreements needed to reflect "a joint understanding of the main priorities for the minister/chief executive partnership for the coming year."
- The review also found some transition problems. For example, one confusion was about the roles and responsibilities of central agencies in facilitating reform in a

---

[29] Via OAG Canada, *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/nzbody.html], Ottawa: OAG, 1994.

[30] B. Logan, *Review of State Sector Reforms*, Wellington: Steering Group on the Review of State Sector Reforms, 1991.

[31] Based on the OAG Canada Study, *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, 1994.

number of areas, such as "lack of clarity or roles and process in output specification".

Many of the *Logan Review's* recommendations formed the basis of government actions to round out and complete the management model of the National government.

2.2.5 Fiscal Responsibility Act 1994

One fundamental piece of the National government's reform package was the *Fiscal Responsibility Act 1994*[32], which was also seen as the last piece in the suite of legislation—the others of which were the *State Owned Enterprises Act*, the *State Sector Act*, and the *Public Finance Act*—designed to redefine the role and responsibility of the state, and establish an environment facilitating responsible and business-like, longer-term public management.[33] The long title of the Act referred to improving "the conduct of fiscal policy and responsibility by specifying principles of responsible fiscal management and by strengthening the reporting requirements of the Crown".

The Act established a set of five principles regarding responsible fiscal management. These principles were:

- Reduction of total Crown debt to prudent levels by achieving operating surplus every year until a prudent level has been obtained;
- Maintaining a prudent level of debt once these have been achieved by ensuring that total operating expenses do not exceed total operating revenue;
- Achieving and maintaining a level of Crown net worth so as to provide a buffer against factors that may impact adversely on the Crown's net worth in the future;
- Managing prudently the fiscal risks facing the Crown; and
- Pursuing consistent policies with a reasonable degree of predictability about the level and stability of tax rates for future years.

The key elements of these principles were predictability and transparency. Departures from these principles were allowed. However, any departure from these principles had to be both transparent and temporary.

The Act also built upon the reporting requirement in the *Public Finance Act 1989* and detailed several new forms of disclosure of fiscal and economic information. Several statements and reports were to be tabled in the Parliament or published on a regular basis. Two of these—the *Budget Policy Statement*[34] and the *Fiscal Strategy Report*[35]—were to relate to the long term intentions of Government, while the remaining were designed generally to disclose and verify as much information as possible about the state of the economy and the progress of the reforms.

---

[32] NZ Parliament, Fiscal Responsibility Act 1994,

[33] NZ State Service Commission, *New Zealand's State Sector Reform: A Decade of Change*, [http://www.ssc.govt.nz/decade-of-change]. New Zealand, 1998.

[34] *Budget Policy Statements* (1995-2003) are available at http://www.treasury.govt.nz/budgetpolicy/.

[35] NZ Treasury, Fiscal Strategy Report, [http://www.treasury.govt.nz/budget2002/fiscalstrategy/], NZ Treasury, 1994.

The *Fiscal Responsibility Act* imposed a medium and long-term focus on government's expenditure and provided this essential context to the operation of the budget and management cycles under the existing financial management system.

2.3 Continuing and Consolidating the Reforms

2.3.1 Strategic Results Areas for the Public Sector

A strategic management system was established in 1993, when the Government produced a document entitled *Path to 2010*[36], outlining its strategic vision for New Zealand in the medium term. The strategic management system also involved interactions among Ministers, chief executives, and central agencies, which were interpreted through:

- Strategic Results Areas (SRAs) – a limited number of major desired results for the public service, linking higher expressions of political intent (Government's desired vision) to public service activity;
- Key Results Areas (KRAs) in the performance agreement of chief executives of individual departments and ministries; and
- Department performance assessments.

In 1995, *Strategic Results Areas for the Public Sector: 1994-1997*[37] was published, which set out the strategic objectives for the 1997 period, and identified activities that must be done well over three to five years to achieve the longer-term strategy. The Results Areas for 1994 to 1997 were:

- Maintaining and accelerating economic growth,
- Enterprise and innovation,
- External linkages,
- Education and training,
- Community security,
- Social assistance,
- Health and disability services,
- Treaty claims settlement, and
- Protecting and enhancing the environment.

The essence of the strategy was to be purposeful and selective, to focus on results and, to frame objectives. The government's SRAs would be completed by departmental KRAs, which focused priorities within departmental budgets and work plans and were part of the accountabilities set out in the performance agreements.

---

[36] NZ Office of Prime Minister, *Path to 2010*, [http://www.executive.govt.nz/93-96/policy/index.html], 1993.

[37] NZ Office of Prime Minister, *Strategic Results Areas for the Public Sector: 1994-1997*, 1995.

The new strategic management system was straightforward:[38] Ministers were to decide and specify the government's priorities and the public service was to distil them into achievable objectives for each department; Ministers and chief executives would conclude formal contracts to cover these priorities; performance against these agreements would be assessed; and the information obtained would be used to improve the quality of the next cycle.

2.3.2 Public Service Principles, Conventions and Practice

In 1995, the State Services Commission published the *Principles, Conventions and Practice* guidance series,[39] a series of essays designed to guide officials on the duties and responsibilities of public servants. The series included:

- *The Constitutional Setting*, which described the basis and relevance of the New Zealand constitution within which the New Zealand Public Service operated, outlined briefly the sources of New Zealand's constitution, and discussed issues for public servants.
- *The Public Service and Official Information*, which was concerned with the responsibility of public servants in relation to information held by their departments and with the need to maintain a balance between the security of the State and the power of the State to acquire, use and disclose information on the one hand, and the protection of individual rights and freedoms, and personal privacy on the other.
- *The Public Service and the Treaty of Waitangi*, which emphasised the importance of the *Treaty of Waitangi*, which has been described as New Zealand's founding document.
- *The Public Service and the Public*, which stated that public servants, first and foremost, had a duty to the law - to uphold the law and the principles of justice and fairness according to the law.
- *The Public Service and the Law*, which provided an overview of the legal framework within which public servants operated, and offered guidance to an appropriate appreciation of that framework.
- *The Public Service and Government*, which discussed the nature of the official's relationships with Ministers, and Cabinet; the concept of the collective interests of government; the conventions and practice related to changes of government; the responsibility for advocacy of policy; and the contestability of advice.

---

[38] NZ State Service Commission, *New Zealand's State Sector Reform: A Decade of Change*, [http://www.ssc.govt.nz/decade-of-change], New Zealand, 1998.

[39] NZ State Service Commission, *Public Service Principles, Conventions and Practice*, [http://www.ssc.govt.nz/display/site_search.asp?p=1&rootnavigationid=&qry=%27Principles%2C+Conventions+and+Practice%27&sortby=rank&x=26&y=5], 1995.

- *The Public Service and Parliament*, which was concerned with the relationship between the Public Service and Parliament and also traversed guidance concerning Parliamentary questions.
- *The Senior Public Servant*, which discussed some of the issues that arise for senior public servants as employees.
- *The Public Service Employer*, the purpose of which was to set out the statutory basis for the employer role of chief executives and senior public servants and the general legal obligations of Public Service employers; to highlight additional or special provisions that apply to Public Service employers; and to discuss some specific issues and particular situations that can arise.

2.3.3 The Spirit of Reform (Schick Review 1996)

In 1996, another independent review of the New Zealand state sector management framework was completed. *The Spirit of the Reform: Managing the New Zealand State Sector in a Time of Change*[40] (also known for its author, Allen Schick, as the *Schick Review*).

The report, commissioned by the State Sector Commission and the Treasury, found that the reforms had lived up to most of the high expectations held for them. The organisational cocoon of the old State sector had been broken open and structures reshaped through the application of the reforms' overriding principles. The State sector was more efficient, productive, and responsive, and there generally had been significant improvement in the quality of services provided to New Zealanders.[41]

The report also identified three areas that could be improved.

- *Strategic Capacity*. Within strategic capacity, which was defined as government's ability to make purposeful and directed change, the report found that the SRAs and KRAs had improved government strategic focus. However, it also pointed out that the Government was still geared more to short-term outputs than the long term.
- *Resource Base*. The resource base, or the ability to allocate resources efficiently in terms of the outputs to be produced, was examined in light of getting both the financial incentives right for managers and getting the price right for the production of outputs. The report stated that the financial reforms had been successful and far-reaching. The report also identified the lack of rigorous costing mechanisms as hindering the process of negotiating and setting "price" in annual purchase agreements. As well, the report found that New Zealand still needed to deal with the issue of operating surplus in order to not distort the performance incentives within the system.

---

[40] NZ State Service Commission, *The Spirit of the Reform: Managing the New Zealand State Sector in a Time of Change*, [http://www.ssc.govt.nz/spirit-of-reform], 1996.
[41] *Ibid.*

- *Accountability for results.* Accountability, according to the report, had been the most successful aspect of the reforms. Although specifying and reporting on outputs had improved over the years, the report suggested that a greater use of trend and comparative data in the Estimates would improve the ability to judge performance and lessen the increasing demands from Parliament for supplementary questions addressed to departments.

As Schick concluded at the end, the next step for the New Zealand State Sector was to embrace a larger agenda. They would have to move from management issues to policy objectives to fostering outcomes, such as social cohesion, that had been enunciated by the Government and embraced by New Zealanders. They would have to do for outcomes what had been accomplished for outputs. The task ahead, according to Schick, was much more difficult than what had been accomplished thus far, but the rewards of success would be even greater.[42]

2.3.4 Crown Entity Reform

The Crown entities in New Zealand were normally established under their own empowering legislation. The statutes were often silent on what role the Ministers of State Services and Finance might have to implement whole-of-government interests. The roles of key players—Ministers, Crown entity Boards, and departments—were often unclear. Successive reviews also expressed concern about the current Crown entity governance framework. As they stated, improving the governance of Crown entities was important to improve performance, and establishing a clearer relationship between Crown entities and Ministers would enhance accountability, which in turn would lead to improved performance and achievement of Government's outcomes.

Based on these concerns, in August 2000, the Government announced changes to governance and accountability arrangements for Crown entities and a proposed legislation. The Government was seeking to amend the current incomplete legislation to include provisions that would strike the right balance between accountability and autonomy. To achieve this, the Government introduced a Crown Entities Bill into the House of Representatives at the end of the year.

More than 70 Crown entities were to be allocated to one of four Classes: *Crown Agents, Autonomous Crown Entities, Independent Crown Entities,* and *Crown Companies.* Each class would have its own distinct governance and accountability framework, which would ensure that the Government's needs were met while balancing the right amount of flexibility for each Crown entity to function effectively.

In addition to improving vertical accountability—management to Board to Minister—the draft legislation also addressed concerns about "horizontal" connections, which would focus on ensuring that the work of the entity would be well-aligned with whole-of-government interests, and working towards common outcomes.

---

[42] *Ibid.*

The proposed Crown Entities Bill was seen as the biggest legislative change in public management in the last eight years: more than 70 Crown entities were to be given clearer governance and accountability arrangements.[43] The overall Crown Entity Reform package, including the guidance issued, was identified as one of the key initiatives designed to support the Government's goal of improving trust in government organizations.[44]

2.4 A New Stage: Getting Better Results

From year 2001, the State Services Commission has been sponsoring and leading a wide range of initiatives to improve public management, and consequently to get better results for citizens, Ministers and staff. These initiatives, which are called *Overview: Getting Better Results*[45], as a whole aim to help the New Zealand Public Service and State sector to:

- focus more on achieving results;
- get more citizen- and community-centred in how they do business;
- build stronger people, culture and leadership; and
- strengthen the integration of structures and processes.

2.4.1 Review of the Centre

The *Review of the Centre*[46] was established by the Prime Minister, the Minister of State Services and the Minister of Finance in July 2001. A Ministerial Advisory Group was appointed, consisting of the heads of the three central agencies and three other members, indicating a desire for both internal experience and external challenge.

The *Review* was essentially a review of the public management system - of how well it responded to the needs and expectations of Ministers and of citizens. The Advisory Group looked at the public management system as a whole. The *Review*:

- considered both departments and Crown entities;
- focused on the operation of the Executive rather than other branches of government - Parliament or the Judiciary; and

---

[43] NZ State Sector Commission, *Crown Entity Reform*, [http://www.ssc.govt.nz/upload/downloadable_files/ce_reforms_overview.pdf], 2000.

[44] Currently, there are five papers available from the State Services Commission or Treasury regarding the Crown Entity Reform: State Services Commission's papers *Crown Entity Reform: Governance* and *Crown Entity Reform: Assignment of Crown Entities to Classes*, and Treasury's papers *Financial Arrangements*, *Reporting Requirements*, and *Subsidiaries*.

[45] NZ State Sector Commission, *Overview: Getting Better Results*, [http://www.ssc.govt.nz/overview-getting-better-results], 2001.

[46] NZ State Sector Commission, *Review of the Centre*, [http://www.ssc.govt.nz/review-of-the-centre], 2001.

- was aimed at the performance of the system in (among other things) supporting Ministerial decision-making, and implementing government policy decisions, and delivering services. It was not about the merits of particular government policies.

The report and recommendations of the Advisory Committee were released in December 2001. The Committee identified four priority areas for change: better integrated service delivery; addressing fragmentation and improving alignment in the State sector; enhancing people and culture; and improving central agency leadership.

Its major finding was that "the public management system as it stands today provides a reasonable platform to work from, but some significant shifts in emphasis are needed to better respond to the needs of the future".[47] The report suggested a direction for change, rather than specifying all the details or costings of the change. Some of the recommendations made the future aspiration clear, but required further analysis to test and refine the actions to be taken. It identified three priority areas for change:

- *Achieving better integrated, citizen focused service delivery*, particularly where complex social problems are dealt with by multiple agencies, making sure the system is focused on the results that citizens and governments want in terms of outcomes and services;
- *Addressing fragmentation and improving alignment* particularly through: a stronger emphasis on outcomes; developing more effective, higher trust means of working together; harnessing technology; re-examining the large number of agencies and votes, and the tendency to emphasise vertical accountabilities rather than whole of government interests; and
- *Enhancing the people and culture* of the State sector, particularly building a strong and unifying sense of values, staff and management development, and meaningful opportunities for collective engagement in organisational decisions.

The *Review* report was considered by Cabinet, and its recommendations were adopted in full on 17 December 2001. The Government also added two requirements to the *Review's* set of recommendations:

- to evaluate the integration of service delivery against the needs, priorities and interests of Maori; and
- to ensure that in addressing issues of fragmentation, the need for a whole of Government approach to issues of Maori policy would be considered.

A progress report on the *Review of the Centre - One Year On - Getting Better Results*[48] was issued in 2003. This report summarises the work done to date under the four priority areas for change, describes some of the results starting to emerge, and gives examples of the sorts of results and changes expected.

2.4.2 Other Initiatives

---

[47] *Ibid.*

[48] NZ State Sector Commission, *Review of the Centre - One Year On - Getting Better Results*, [http://www.ssc.govt.nz/roc-one-year-on], 2003.

Approved by the Cabinet and launched by the State Sector Commission in 2001, *Managing for Outcomes*[49] in the Public Service is an outcome-based approach to departments' planning, management and reporting. Its aim is to improve the performance of the Public Service and requires departments to adopt a strategic and outcome-focused approach to planning, management and reporting while focusing on delivering outputs. A Steering Group led by the State Services Commission, Treasury, Ministry of Maori Development, and the Department of the Prime Minister and Cabinet is overseeing the implementation of the initiative across the Public Service.

To ensure the State sector development infrastructure is able to address the career aspirations of talented future leaders and senior managers, a package of new initiatives, known as *The State Sector Senior Leadership And Management Development Strategy*[50], is currently being developed. The initiatives will be supported by legislative changes to the *State Sector Act*. The changes will emphasise the individual responsibility of the State Service Commissioner for setting standards for Public Service-wide senior leadership development and succession management, and the joint responsibility of the Commissioner and Public Service Chief Executives to deliver on them. Whilst the initiatives have a focus on senior leadership development and succession management, the term "leadership development" is not limited to chief executive and/or managerial positions. It also includes senior specialist roles such as those involved in project management.

E-Government[51] is mostly about citizen-centred delivery. It also contributes to integrating processes. The Government launched the *E-government Strategy* in April 2001. The aim, under the strategy, is to create a public sector that is structured, resourced and managed to perform in a manner that meets the needs of New Zealanders in the information age and which increasingly delivers information and services using online capabilities.

Values and integrity is also about strengthening State sector people and culture. Public servants carry out the business of government with: *shared values, high ethical standards*, and *in the spirit of service*. To achieve this outcome, the Commission will support the Commissioner in the actions or interventions specified in the *Statement of Intent 2002*[52].

These initiatives are intended to shift the public service toward the following directions:

- a greater focus on results,

---

[49] More information on *Managing for outcomes* is available at http://www.ssc.govt.nz/managing-for-outcomes.

[50] More information on *The State Sector Senior Leadership And Management Development Strategy* is available at http://www.ssc.govt.nz/slmd.

[51] More information on the *E-government Programme* is available on the e-government website at http://www.e-government.govt.nz/.

[52] NZ State Sector Commission, *Statement of Intent 2002*. [http://www.ssc.govt.nz/soi2002]. 2002.

- a more citizen and community-centred process,
- more integrated structures and process, and
- stronger people, culture, and leadership.

More detailed expectations have been set up in the *Current Problems in Public Management*; however, as the Minister of State Sector noted, there is still work to be done on the interconnectedness of the initiatives, the risks and issues associated with their multiplicity, and exactly how they might change the public management system in total.[53]

3. Key Elements

After almost twenty years of reform, the New Zealand Public Service has made great improvement, taking New Zealand to the frontiers of performance practices internationally. The main driver, an economic crisis, no longer exists, given the surplus recorded in 1994 after two decades of deficit. Regarding the main initiatives, several key elements can be found through the New Zealand Public Service Reforms.

3.1 Legislative Commitment

New Zealand's public sector reforms are well supported by legislation. The *State Sector Act 1988*, the first comprehensive legislation in New Zealand's public sector reforms, was designed and passed to grant managers greater authority and flexibility. In 1989, the *Public Finance Act* introduced a radically different system of financial management and accountability. The new system completed and consolidated the changes made by the *State Sector Act*, increased the relevance of performance information, improved accountability, and shifted the financial management away from detailed control of costs to service quality and government desired outcomes. Another fundamental piece of legislation was the *Fiscal Responsibility Act* passed in 1994, to redefine the role and responsibility of the state, and establish an environment facilitating responsible and business-like, longer-term public management. These three main laws, along with other laws, such as the *State-Owned Enterprises Act* and the *Crown Entity Bill*, built up the legislative framework, thereby ensuring the continuity of New Zealand's reforms during the transitions of the Government when different parties were in power.

3.2 Leadership

As noted in *the Spirit of the Reforms*, political leadership is essential to the New Zealand Public Sector reforms.[54] Both the Labour and National Party sought to improve the economic conditions and accountabilities. The National Government pressed for full implementation of the management model and pursued additional reforms. However, with the election of a left-wing coalition, bipartisan support for the reforms that had

---

[53] NZ State Sector Commission, Current Problems in Public Management, [http://www.ssc.govt.nz/current-problems-public-management], 2003.

[54] NZ State Sector Commission, *The Spirit of the Reform: Managing the New Zealand State Sector in a Time of Change*, [http://www.ssc.govt.nz/spirit-of-reform], 1996.

existed for fifteen years came to an end.[55] After two years in office, the Coalition Government had made only modest changes.

Leadership support comes not only from political leaders, but also from managers. In the New Zealand Public Sector, leadership capacity has long been a focus. As its fiscal problems were resolved, New Zealand's reforms entered a new stage, with a focus on strengthening people, culture, and leadership. It will be fully implemented through the *State Sector Senior Leadership And Management Development Strategy* in the following five years.

3.3 Setting Objectives and Measuring Performance

Since the main driver of the reform was the country's fiscal problems, the objectives of the New Zealand public sector reforms were focused firstly on improving financial management and reforming the bureaucracy and process. Another objective was to meet the public demand of higher quality service while retaining fiscal responsibility. The reforms during 1984 and 2000 can be described as the development of managerialism and a focusing on outputs.

Ever since *the State Sector Act 1988*, clear expectations of chief executives have been set in performance agreements and purchase agreements. Beginning in 1993, a strategic management system was established outlining the Government's strategic vision for New Zealand in the medium term. The strategic management system also involved interactions among Ministers, chief executives and central agencies. The system introduced the *Strategic Results Areas* (SRAs) in a government-wide plan and *Key Result Areas* (KRAs) in departmental plans and individual agreements.

Before 2000, a key feature of the New Zealand public management was its emphasis on outputs rather than outcomes in the performance management process. The measures were then focused on the quantity, coverage, timelines, cost, and quality of the outputs. With the development of the performance management system, the New Zealand Public Sector began to emphasize outcomes. One of the main priorities of the new government is to put more focus on results, so that: [56]

- Citizens will find complex problems get sorted out better, find government in Wellington less distant, notice less duplication, and feel well-served by public servants;
- Ministers will see more innovative solutions dealing with long-standing problems, be more confident on policy-making based on sound analysis and evidence, and hear fewer complaints about coordination and duplication; and

---

[55] Graham Scott, *Managing Government for Better Performance and Results*, [http://unpan1.un.org/intradoc/groups/public/documents/un/unpan001961.pdf]. Workshop on Financial Management and Accountability, United Nations Department of Economics and Social Affairs and the Government of Italy, 2001.

[56] NZ State Sector Commission, *Current Problems in Public Management*, [http://www.ssc.govt.nz/current-problems-public-management]. 2003.

- Staff will be better able to see and understand the results of their work, see their views being listened to and put into action, find work more satisfying, see senior people in frontline, and have more contact with people in other sections.

As the Minister of State Services has noted, since the year 2000, public management in New Zealand has been moving towards leadership and outcomes (getting results).[57]

3.4 Performance-Based Budgeting

Performance measurement is linked to the budget process directly through purchase agreements and output budgeting. Under the *Public Finance Act 1994*, Ministers are responsible for determining the outcomes the government seeks. The Government then selects the outputs that can best provide the outcomes and then allocates resources to them. The budget process is based on performance information on the volume and price of the outputs, rather than inputs. The objective is to link resource allocation as closely as possible with performance.

3.5 Performance-Based Human Resource Management

Performance-based human resource management was introduced as a part of New Zealand's overall public sector reforms. As early as the *State Sector Act 1988*, clear responsibility and accountability requirements were set up for chief executives. The roles of Responsible Ministers, Chief Executives and senior managers in terms of ownership are defined in the purchase agreements and performance agreements. Given that chief executives are on fixed-term contracts, the reputation of being a high performer is critical should they wish to secure chief executive appointments in the future. Another important initiative for managers is the *State Sector Senior Leadership And Management Development Strategy*, which focuses on improving the leadership capacity.

However, some scholars have noted that too much weight was put on the minister-chief executive relationship, suggesting that the idea that chief executives follow individual contracts could lead to a loss of collegiality and shared experience of public service as a whole.[58]

Under the instruction provided by the *State Sector Act*, the State Sector Commission published the *Service Code of Conduct* in 1990, the purpose of which was to offer guidance on the standards of behaviour required of public servants. Three principles were also provided: that employees should fulfill their lawful obligations to Government with professionalism and integrity; employees should perform their official duties honestly, faithfully and efficiently, respecting the rights of the public and their colleagues; and employees should not bring their employers into disrepute through their private activities.[59]

---

[57] *Ibid.*

[58] Simon Smelt, *Operational Efficiency in the New Zealand Public Sector*, [http://firms.findlaw.com/smelt/memo6.htm], World Bank, 1997.

[59] NZ State Sector Commission, *Public Service Code of Conduct*, [http://www.ssc.govt.nz/coc], 2001.

Staff are hired based on their merits, and flexible pay agreements based on performance appraisals are used for most staff. This is said to have resulted in a clarification of goals and improved performance of staff. Training is another important aspect of human resource management. The Chief Executive of the New Zealand Public Service, with the support of the State Services Commission, established the *Management Development Centre (MDC)* in 1995 to promote excellence in the education, training and development of Public Service leaders and senior managers.

3.6 Performance Reporting and Reviewing

Defining and monitoring purchase and ownership performance requires comprehensive information about the full costs. For this reason, all government entities in the New Zealand Public Sector are required to report financial performance on an accrual accounting basis, using the same generally accepted accounting practices. Each department must provide a full set of financial statements to their ministers and the Treasury on a monthly basis. In addition, departments must also submit an audited annual *Statement of Service Performance*, outlining the outputs produced versus the outputs agreed. Departments also report publicly against their *Department Forecast Report.*

A range of approaches are used to review performance. The New Zealand Audit Office has the overall responsibility of reviewing the performance of the public sector in both financial and non-financial areas. Ad hoc reviews of specific programs are also undertaken, both in relation to new policy objectives and expenditure pressures. Another important feature of the reviewing activities in New Zealand's Public Sector is the independent review. For instance, both the *Logan Review 1991* and *the Spirit of the Reforms 1996* were led by independent review groups. The Logan Review recommended that a standard of good performance for a department should be the existence of a program of self-review covering internal audit and financial controls, management review, and evaluation of output effectiveness. [60] These reviews provide government and Parliament with clear performance information for future directions.

3.7 Building Performance Culture

According to the OECD, New Zealand public services are more accessible and responsive, more sensitive than in the past to the needs of citizens and clients, and much more efficient, compared to its past and compared to many other countries.[61] A culture of performance is said to have penetrated New Zealand's public management. Chief executives and managers know and accept that they are judged on the performance of their organisations. Their responsibilities are set up in the purchase and performance agreements. They accept that improving performance must be an ongoing objective, and that it is necessary that productivity gains in the state sector keep pace with developments

[60] OECD, *In search of Results: Performance Management Practices*, Paris, 1997, p. 83.
[61] NZ State Sector Commission, *The Spirit of the Reform: Managing the New Zealand State Sector in a Time of Change*, [http://www.ssc.govt.nz/spirit-of-reform], 1996.

in the market economy. Public Sector employees are also getting clear values of performance management through the Public Service Code of Conduct and the performance-based human resource management systems. From the year 2000 on, more emphasis will be put on building a performance culture in the New Zealand Public Sector.

Reference:

Boston, J., "Trans forming New Zealand's Public Sector", *Public Administration*, winter 1987.

Logan, B., *Review of State Sector Reforms*, Wellington: Steering Group on the Review of State Sector Reforms, 1991.

NZ Office of Prime Minister, *Path to 2010*, [http://www.executive.govt.nz/93-96/policy/index.htm], 1993.

NZ Office of Prime Minister, *Strategic Results Areas for the Public Sector: 1994-1997*, 1995.

NZ Parliament, *State Sector Act 1988*, [http://rangi.knowledge-basket.co.nz/gpacts/public/text/1988/an/020.html], NZ Parliament, 1988.

NZ Parliament, *Public Finance Act 1989*, [http://rangi.knowledge-basket.co.nz/gpacts/public/text/1989/an/044.html], NZ Parliament, 1989.

NZ Parliament, *Fiscal Responsibility Act 1994*, [http://rangi.knowledge-basket.co.nz/gpacts/public/text/1994/an/017.html], 1994.

NZ State Sector Commission, *Public Service Principles, Conventions and Practice*, [http://www.ssc.govt.nz/display/site_search.asp?p=1&rootnavigationid=&qry=%27Principles%2C+Conventions+and+Practice%27&sortby=rank&x=26&y=5], 1995.

NZ State Sector Commission, *The Spirit of the Reform: Managing the New Zealand State Sector in a Time of Change*, [http://www.ssc.govt.nz/spirit-of-reform], 1996.

NZ State Sector Commission, *New Zealand's State Sector Reform: A Decade of Change*, [http://www.ssc.govt.nz/decade-of-change]. New Zealand, 1998.

NZ State Sector Commission, *Crown Entity Reform*, [http://www.ssc.govt.nz/upload/downloadable_files/ce_reforms_overview.pdf], 2000.

NZ State Sector Commission, Public Service Code of Conduct, [http://www.ssc.govt.nz/coc], 2001.

NZ State Sector Commission, *Overview: Getting Better Results*, [http://www.ssc.govt.nz/overview-getting-better-results], 2001.

NZ State Sector Commission, *Review of the Centre*, [http://www.ssc.govt.nz/review-of-the-centre], 2001.

NZ State Sector Commission, *Review of the Centre - One Year On - Getting Better Results*, [http://www.ssc.govt.nz/roc-one-year-on], 2003.

NZ State Sector Commission, *Statement of Intent 2002*, [http://www.ssc.govt.nz/soi2002], 2002.

NZ State Sector Commission, *Current Problems in Public Management*, [http://www.ssc.govt.nz/current-problems-public-management], 2003.

New Zealand Treasury, *Economic Management: Treasury Brief to the Incoming Government 1984*, [http://www.treasury.govt.nz/briefings/1984/default.asp], NZ Treasury, 1984.

New Zealand Treasury, *Government Management: Treasury Brief to the Incoming Government 1987*, [http://www.treasury.govt.nz/briefings/1987/], NZ Treasury, 1987.

NZ Treasury, *Fiscal Strategy Report*, [http://www.treasury.govt.nz/budget2002/fiscalstrategy/], NZ Treasury, 1994.

OAG Canada, *Toward Better Governance - Public Service Reform in New Zealand (1984-94) and its Relevance to Canada*, [http://www.oag-bvg.gc.ca/domino/other.nsf/html/nzbody.html], Ottawa: OAG, 1994.

OECD, *In search of Results: Performance Management Practices*, Paris, 1997.

Pollitt, Christopher and Geert Bouckaert, *Public Management Reform: A Comparative Analysis*, Oxford: Oxford University Press, 2000.

Smelt, Simon, *Operational Efficiency in the New Zealand Public Sector*, [http://firms.findlaw.com/smelt/memo6.htm], World Bank, 1997.

Scott, Graham, *Public Management In New Zealand: Lessons and Challenges*, [http://www.nzbr.org.nz/documents/publications/publications-2001/public_management.pdf], New Zealand Business Roundtable, 2001.

Talbot, Colin; Lyn Daunton; and Colin Morgan, *Measuring Performance of Government Departments—International Developments*, [http://www.tintern.org/nao_gov_report.pdf], Report to UK National Audit Office, London: Public Futures Ltd, 2001.